



**Assessment of Readiness of
TKC Customs Authorities to Implement
Regional Authorized Economic Operator Program**

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PURPOSE:

To assist in the adaptation and implementation of current best practices along the Trans Kalahari Corridor.

OBJECTIVES:

1. Consult with Customs administrations in Trans-Kalahari Corridor Countries (Botswana, Namibia and South Africa) to:
 - assess the readiness of each to implement a regional Authorized Economic Operator (AEO) program;
 - brief TKC AEO task teams on the latest draft guidelines and obtain their comments, criticisms and suggestions; and
 - meet with risk management staffs to review current risk and compliance management practices, including compliance post clearance controls, which will be necessary to effectively manage the proposed TKC AEO program.
2. Update the TKC AEO draft guidelines to incorporate comments and recommendations obtained during the consultations with the AEO task teams
3. Propose modalities for a regional risk management model that will effectively support the TKC Regional AEO program
4. Identify TKC AEO program related capacity building needs within each of the three Customs authorities.

LOCATION AND DATES:

February 15-17, 2010	Review of the TKC Regional Authorized Economic Operator guidelines with the task team in Windhoek
February 18-19, 2010	Review of AEO program and risk management in Windhoek at Customs headquarters
February 22-23	Review of AEO program and risk management in Gaborone at Botswana Unified Revenue Service (BURS) Customs headquarters
February 24-26, 2010	Review of AEO program and risk management in Pretoria at South Africa Revenue Service (SARS) headquarters
March 1-5, 2010	Presentation of findings to chairpersons of task teams on AEOs and risk management in Gaborone; preparation of final report

HIGHLIGHTS

- **South Africa:** The South Africa Revenue Service (SARS) is well into a major, internally driven Customs modernization plan that will redefine working procedures and working relationships between Customs and its business clients. SARS' approach is to improve its understanding of its clients and their businesses and to work with private sector partners to create an improved regulatory environment. SARS is now engaged with various trade sectors to redefine registration and licensing standards and practices, to develop service options to meet specific trade sector needs, to provide better advisory service to its clients, and to improve compliance levels overall.

As an element of this compliance-oriented modernization plan, SARS is replacing its current Accredited Trader Program with two related programs: (1) a Preferred Trader (PT) program that includes benefits to compliant importers, exporters and service providers trading within the region and (2) a WCO-compliant "world-class" Authorized Economic Operator (AEO) program that will include more substantial eligibility requirements (including supply chain security requirements) and will provide voluntary participants with tailor-made benefits. As a part of this modernization drive, SARS is totally revamping its Customs code to bring it into full compliance with the Revised Kyoto Convention and replacing its CAPE system with a new SARS Integrated System that will provide a total e-Customs solution.

The SARS modernization initiative is grounded on a well developed risk management capacity, a well developed external audit capacity, and a competent, forward-thinking capacity building organization. SARS has developed a holistic approach to establishing minimum standards to be achieved by customs and traders to ensure that all clients are treated fairly and consistently. SARS is actively collaborating with the private sector to identify potential PT and AEO program participants and to develop specific benefits of interest to each trade sector. SARS is an excellent source of capacity building talent and resources and has offered to provide full assistance to help the other Customs administrations develop the necessary risk management and audit skills.

- **Botswana:** The Botswana Unified Revenue Service (BURS) Customs Division has adopted a well-designed organizational structure and is in the process of developing the new skills, techniques and specialties required. BURS uses the ASYCUDA++ processing system and has begun using the system's cargo selectivity module (MODSEL). While BURS does not yet have a fully functional, adequately staffed risk management department, it does have an in-house understanding of the risk management process. The Systems Clearance and Management Information Department manager has instituted the basic elements of the risk process into the cargo selectivity system.

BURS has recently established a Post Clearance Audit function that has not yet had the opportunity to fully develop and is not benefitting from any meaningful form of risk targeting. BURS has also taken the commendable step of establishing a Customer Support Department responsible for licensing, registration, appeals and other customer-oriented services. Customs is amenable to new, simplified procedures and anxious to develop a preferred trader program but has not yet identified potential participants. BURS needs assistance in developing its risk management and audit capacities.



- Namibia:** Namibia Customs and Excise (NCE) is awaiting approval of a new organizational structure that includes a new Risk Management Department with central office and field components. While the central office component will be responsible for managing the MODSEL cargo selectivity process, the field components will be primarily responsible for operating new non-intrusive scanners. At this time, NCE does not possess any meaningful risk management capability in the context of commercial cargo clearance. Approval of the new structure is expected within a matter of months but bringing the new risk management departments on line will require significant capacity building and a significant amount of time. NCE has not analyzed its client database to identify potential PT program participants nor has it begun to work with its private sector clientele to develop sector-specific benefits. NCE needs assistance in developing its risk management and audit capacities.
- Regional Risk Management Modality:** Although the SARS Integrated Customs Risk Analysis System (ICRAS) for imports and exports provides more sophisticated risk analysis and profiling capabilities than the Selectivity Module now in place in both Botswana and Namibia, both systems require the same analytical skills and procedures: analysts must define risks, gather the necessary data and analyze them, evaluate them to identify and apply the most appropriate type and intensity of Customs control, monitor the effectiveness of the controls, and revise risk profiles and exam criteria as necessary. The only significant difference in the process is that the ICRAS system is capable of self-analysis of historical data whereas MODSEL requires the analyst to do so. Once Namibia's and Botswana's risk analysts are properly trained in the risk management process, a regional risk management modality will exist.
- Identification of Potential PT/AEO Participants:** SARS has already identified those industries it considers to be of strategic importance. BURS and NCE have yet to do so. Before going any further, each delegation must identify its primary focus industries, its highest volume companies, its highest volume commodities and the strategic focus that their program should initially take.
- Establishing and Measuring Compliance Standards:** SARS is now refining compliance standards and is capable of evaluating potential participants accordingly. Neither BURS nor NCE have established compliance standards and neither currently tracks compliance by company, industry or commodity. BURS does require copies of all administrative penalties to be forwarded to a central office for quality review. NCE does not. BURS and NCE would benefit from establishing uniform quality control processes and from the development of an automated database that would enable them to track historical levels of compliance by individual companies.
- Capacity Building Requirements and Sources:** In the cargo selectivity context, neither BURS nor NCE have a dedicated risk management process or staff. Both have expressed a commitment to implementing risk management throughout their organization. BURS has created a small risk unit in the passenger/anti-smuggling context and NCE is establishing a large decentralized risk department in the cargo-selectivity context. Both require basic risk management training in the cargo selectivity context, followed by on-the-job training. SARS has graciously offered to provide the classroom training through its Customs Academy and to assist with on-the-job training by sending a risk management expert to work with the new central office risk management units in both BURS and NCE.

- **Draft Guidelines:** Prior to this assessment, the Trans Kalahari Corridor Secretariat's TKC Regional AEO Program guidelines anticipated a joint implementation of a regional (three country) AEO program in a fairly short timeframe. While an admirable and worthwhile goal, the differences in each of the three countries' capacity suggests that a different approach be considered. As a result of this assessment, the draft has been revised to:
 - recognize that SARS has committed significant resources to their PT/AEO program and must go forward according to their schedule;
 - allow BURS and NCE sufficient time, with SARS assistance, to build their in-house risk management capacities to the level necessary to support PT/AEO programs;
 - commit BURS and NCE to first implement a preferred trader program based on and adapted from the SARS model and then proceed to the next step of developing and implementing AEO programs based on the shared experience of SARS and the WCO SAFE Framework of Standards; and
 - commit the TKC countries to develop mutual coordination and communications channels to permit each country to grant mutual recognition and reciprocity privileges to PT program participants;

ISSUES:

- **Risk and Compliance Management**

Before addressing the findings regarding the three Customs risk management capabilities, the following definitions are offered to properly set the stage:

- Risk, in the Customs context, is defined as the potential for non-compliance with Customs laws. Risk is a continuum that ranges from acceptable to catastrophic.
- Analysis is defined as the separation of an intellectual or material whole into its constituent parts for individual study, the study of such constituent parts and their interrelationships in making up a whole, and a spoken or written presentation of such study.
- Risk Analysis, again in the Customs context, is the systematic use of information available to Customs to determine the likelihood of defined risks occurring and the magnitude of the consequences, should they occur.
- Risk Management adds the determination of how Customs can best manage specific risks by designing and implementing specific controls of an appropriate nature and intensity and then continuously monitoring the results of those controls and modifying them as warranted.
- While risk management may be applied to almost any Customs functional area, for the purposes of implementing a preferred trader/authorized economic operator program the context is the ability to apply risk management processes to establish selective controls and measure commercial compliance.

Risk analysts evaluate data in their declaration processing system's database looking for patterns, anomalies and other indications of non-compliant behavior on the part of declaration filers. They also actively seek input from officers in the field regarding unusual or suspicious activities on the part of various importers or importations. In the latter case, the analysts evaluate the field input by analyzing historical data contained in the database. In both cases, the analysts:

- Define the potential risk in clear and concise terms;
- Analyze all available information and, if necessary, gather additional information necessary to their analysis. (This might include liaising with other agencies.);
- Evaluate the data they have gathered to assess the level of risk ranging from acceptable to catastrophic risk;
- Determine the most efficient manner of addressing the risk in terms of control type and intensity (for example, 10% of declarations are routed to yellow channel, or 30% of declarations are routed to yellow channel and 10% are routed to red channel, or any other distribution of controls to any of the various channels as deemed appropriate.);
- Develop the criterion to be entered into MODSEL (including all applicable risk indicators: if importer A imports goods listed in tariff item X from country Y, then 10% of declarations will be physically examined, 30% will receive detailed document reviews and 10% will be referred for post clearance audit.) AND provide specific examination instructions telling the examining officers what they are to look for;
- Estimate the anticipated impact on workload. Examination criteria cannot order more interventions than the available staff at any given cargo clearance facility can perform at the expected quality level.
- Monitor the results of the new criteria no less than monthly to determine if it has been productive. If not, the criteria must be modified or deleted.
- Provide management with monthly reports on the number of criteria developed that month, the number of criteria remaining in the system from previous months, the extent to which each has produced results and the corrective actions taken.
- Document the entire process.

The process described above is the one normally used to identify potential non-compliance; i.e., "looking for the bad guys". This is where a novice risk management unit normally starts. A risk management unit will also be responsible for identifying compliant traders and those traders who, with Customs assistance, can likely be convinced to raise their level of compliance. This can be characterized as "looking for the good guys". Generally speaking, most Customs administrations that have already embarked on the implementation of an AEO program have a functioning risk management department equipped with the necessary skills to add the compliance element to their list of ongoing responsibilities.

While SARS has the necessary risk management processes in place, BURS and NCE do not.

SARS uses a selectivity module known as the Integrated Customs Risk Analysis System (ICRAS) which provides risk analysis and profiling capabilities for imports and exports from a transactional and behavioral context. As SARS moves forward in the development of its new Integrated System which will replace the CAPE system, it will upgrade its targeting capabilities. ICRAS offers a three-phase targeting process. The first phase provides

tactical targeting based on specific information developed by SARS risk analysts or provided to the analysts by others. If a declaration hits against a phase 1 risk profile, it is directed to the yellow or red channel as appropriate. If a declaration clears phase 1 without hitting against specific risk profiles, it then moves to phase 2. Phase 2 initially performs a “generic” check against importer codes, tariff codes, clearing agent codes, country of origin codes and Customs Procedure Codes, previous importer activity, routing, relationships, and source countries to better address safety and security issues as well as fiscal and trade issues. Phase 2 provides a weighted scoring of each of these elements that generates a total score ranging from 8 to 24. In phase 2, the system can search its knowledge base to identify low frequency importers, unusual routings, questionable relationships, etc. If a transaction clears both phase 1 and phase 2, it is then subject to phase 3; a simple random selection process.

BURS and NCE both use the ASYCUDA++ processing system. ASYCUDA has a less sophisticated, but basically similar selectivity module called MODSEL. MODSEL provides four Customs control channels, green (designed for system checks only), yellow (document review), red (physical examination) and blue (post clearance audit). MODSEL requires the same analytical skills and procedures that are employed to manage the ICRAS system: analysts define the risk, gather the necessary data and analyze the risk, evaluate the risk to identify and apply the most appropriate type and intensity of Customs control to address it, periodically monitor the effectiveness of the controls over time, and revise the criteria as necessary. The major differences are (1) that the ICRAS system is capable of self-analysis of historical data whereas MODSEL requires the analyst to do so and (2) MODSEL is a two-phase system that allows tactical targeting and random examinations but does not incorporate weighted scoring.

Neither BURS nor NCE has adequate risk management capacity at this time to support PT/AEO programs. If this were a contest, it would be a draw. BURS demonstrated a better institutional understanding of the risk management process, but it has not yet provided the necessary staffing to focus on the cargo-selectivity context. NCE is awaiting approval of a new organizational structure to create central office and field office risk management components but does not yet appear to have a clear understanding of the risk management procedures that will be employed by the central office unit.

All three authorities recognize the importance of post clearance audit based controls to the proper functioning and monitoring of PT/AEO programs and have established units for that purpose. SARS expressed its desire to improve its audit capabilities to “world-class” level. The BURS audit function is bifurcated, as will be described later in this report, and is not risk driven. The NCE unit was not interviewed but it cannot be risk-driven at this point in the absence of a risk management process. Based on the expected differences in levels of experience, as soon as BURS and NCE have resolved their risk management deficiencies,

they should immediately address building the capacity of their audit departments as an integrated part of their risk process.

- **Identification of Potential PT/AEO Participants**

Neither BURS nor NCE has:

- identified potential participants in their anticipated PT/AEO programs.
- identified strategic or primary focus industries to be given priority consideration to participate in the PT/AEO programs;
- identified, with statistical certainty, their highest volume importers, exporters, clearing agents or transporters; or
- identified with statistical certainty, those commodities which comprise the highest import or export volumes.

This is an immediate “red flag” that must be given immediate and overriding priority. The data is readily available and can be easily analyzed. This should be the primary topic of discussion at the first meeting of the TKC AEO working group following the March 3-4 meeting.

Any Customs authority must have the answers to the above questions in hand before it begins the design of a PT or AEO program. Without those answers, it is impossible to determine what direction a PT/AEO program should take. What are the concerns individually and as a whole for the TKC Customs authorities? Is the primary concern expediting the movement of goods among the three countries and reducing transport delays and costs? If so, then the next question for each country is whether the initial focus should be on imports or exports. Is the primary concern making a country’s exports more competitive outside of Africa and assuring potential buyers that African suppliers meet international supply chain security standards, or is it protecting the nation’s homeland from terrorist attacks or other societal dangers introduced via the international supply chain; i.e., weapons of mass destruction or other dangerous contraband concealed in inbound containers? Each Customs authority must have established a set of goals other than the fact that they have each committed to the WCO to establish AEO programs. Put in the simplest terms, each Customs authority must be able to clearly answer the question of “What’s in it for me?”

PT/AEO programs are intended to be voluntary partnerships. Ultimately, these programs will be opened to a wide variety of business segments and to smaller companies. In the beginning, however, as each Customs authority brings its programs online, it should have targeted a specific set of primary focus industries; i.e., those industries that have the greatest economic impact on the economy. The Customs authority should have also identified a small group of companies that collectively are responsible for a disproportionately large percentage of the total imports or exports. These are the companies that should be approached to participate in the initial pilot. Their participation is voluntary, of course, but that does not preclude Customs from identifying them and extending an invitation.



The forthcoming USAID Customs Modernization Handbook on Authorized Economic Operator Programs offers the following commentary: “Some AEO programs focus on imports, others on exports, depending on national priorities. Governments must not only guard against terrorist attacks on their own soil through the import supply chain, but they must also safeguard their competitiveness in the international market by protecting export markets and brand names. Ideally, an AEO program covers both imports and exports, but Customs administrations should not try to do too much too soon. If a country considers its primary threat an attack on its homeland (e.g., United States and Canada), it will probably address imports first. But if the primary threat is to export markets (e.g., Jordan, New Zealand), the country would be wise to focus first on export security. Either decision does not preclude the development of a broader program covering both imports and exports. The key issue is where to start.”

The final draft of this handbook was provided to the members of the TKC AEO working group.

Before going any further, each delegation must identify its primary focus industries, its highest volume companies, its highest volume commodities and the initial focus that their program should take.

- **Establishing and Measuring Compliance Standards:**

After Customs has established the minimum compliance standards that must be met for a company to participate in either a preferred trader or authorized economic operator program, how does Customs determine whether the applicant meets the requirement? Does Customs rely on the applicant’s word or does it review its own records? Obviously, the second option is the correct response. This assumes that Customs has a centralized filing system or database on administrative penalties, seizures, valuation uplifts and other enforcement or corrective actions. While SARS and BURS have a centralized repository for this information, NCE does not. From a purely quality control perspective, copies of every administrative penalty should be automatically forwarded to a designated head office unit for review to determine the validity, appropriateness and compliance with instructions of each such action. Actions not meeting those standards are clear indicators of sloppy workmanship, inattention to regulations or guidelines or (at worst) integrity lapses.

From a compliance measurement perspective, the risk management unit should have unfettered access to all administrative penalty actions so it can conduct the required historical compliance assessment of each applicant. As the risk management unit undertakes a compliance review of each AEO applicant, it will have to review every penalty action, seizure, valuation uplift and other significant modification of an original declaration. In conducting that review, the risk management unit will have to assess the significance of each case. Was it clearly the result of fraudulent intent, was it merely a clerical error, was it an honest difference in interpretation of a tariff description or regulation, or was it something in between? No one is perfect and no company is perfect.

Honest mistakes can be made, as can careless mistakes. Not every mistake is an indicator of intent to deceive Customs or to skirt some legal requirement. The risk management unit will have to exercise a reasonable review of all such actions. Obviously, before it can do so,

it has to have ready access to records without having to visit the various regional offices. Further, the risk management unit will have to track all new penalty and similar actions to maintain a current overview on compliant and noncompliant traders and quickly determine when a compliance improvement plan should be initiated.

The forthcoming USAID Customs Modernization Handbook on Authorized Economic Operator Programs offers the following commentary: *“To participate in an AEO program, a potential industry partner must demonstrate a record of compliance over a certain period of time. A critical and often difficult question the AEO Working Group must consider is whether Customs has sufficient, reliable data to determine past compliance levels.*

The Customs project implementation team works with the Customs risk management department to analyze declarations received in the preceding 12 months and identifies the

importers, exporters, transporters, and brokers with the most declarations, the highest Customs value, and greatest revenue contribution. Because this information is confidential, participation in this review has to be limited to Customs officers who are constrained from revealing this information to others. The team also reviews declaration amendments and penalty cases to determine whether a past level of compliance can be reliably determined for those companies.

The team reviews declaration processing at clearance centers and all penalty cases issued for undervaluation during the preceding 12 months to determine if procedures have inadvertently created a lack of documented amendments, inappropriately identified legitimate Customs valuation disagreements as violations, or encouraged undervaluation as a negotiating ploy.

Accurately gauging past compliance may not be possible, however, because of a lack of reliable data. Even if Customs cannot accurately ascertain past compliance, an appropriate record of compliance must be defined. The AEO Working Group may choose to define this record differently for past and future compliance. This recognizes that Customs compliance tracking measures may not have been adequate before the implementation of the AEO program and does not unfairly penalize traders for this inadequacy. Exhibit 2-1 describes a scenario in which the issue of traders’ compliance is clouded by local valuation practices.

If past or current Customs practices have contributed to less-than-satisfactory compliance, setting the initial AEO compliance standard will be challenging. Setting it too high may be counterproductive. If Customs cannot accurately analyze compliance levels on the basis of its records, what is the recourse? Absent a reliably documented pattern of an AEO applicant’s willful misconduct, Customs must rely on the applicant’s willingness and demonstrated ability to conform to AEO requirements in the future.

In any case, Customs must correct any procedure that contributes to a lack of compliance and begin documenting and tracking amendments to declarations accurately, if it is not already doing so. Customs must record all violations (of whatever type), and both positive and negative examination findings in a manner that is accurately attributable to the economic operator involved. Customs, if it has not already done so, also must pursue refinements in postclearance audit, risk managements programs, IT solutions, and integrity programs”



A Customs authority must have a central repository of administrative penalties. The department assigned this function would be responsible for conducting quality control reviews of every administrative penalty as well as discerning patterns of violations by traders and lack of uniformity by Customs offices. Both BURS and NCE would greatly benefit from automating this process. If the entire administrative penalty process cannot be automated, then each Customs authority should at a minimum have an automated database to assist them in monitoring uniformity, patterns of non-compliance and historical levels of compliance by individual companies.

- **Capacity Building**

Fortunately, the TKC countries will not have to reach too far to satisfy their capacity building requirements. Capacity building is needed in the following technical specialties before BURS and NCE can go forward with the implementation of their PT/AEO programs:

- Basic Risk Management Theory and Practice (a minimum of two weeks of classroom training for 5-6 officers from Botswana and a like number from Namibia, with heavy reliance on practical exercises and a visit to the SARS targeting center).
- Risk Management On-the-Job Training (a minimum of one week working visit to each country by a SARS risk management expert to help new BURS and NCE risk management teams develop their initial risk profiles and to establish systematic cost-effectiveness monitoring of examination criteria.)
- Post Clearance Audit On-the-Job Training – This could be accomplished in one of two ways: (1) a SARS trainer travels to Botswana and Namibia and leads an actual compliance audit or (2) one or two auditors from Botswana and Namibia visit SARS to observe an audit in progress.
- **Regional Program Draft:** Prior to this assessment, the Trans Kalahari Corridor Secretariat's TKC Regional AEO Programme guidelines assumed, through the 4th draft, that a regional AEO program could be brought online in a fairly short timeframe. While an admirable and worthwhile goal, the differences in internal capacity among the three countries suggests that a different approach must be considered. As a result of this assessment, the draft guidelines have been revised to recognize that:
 - SARS has committed significant resources to their PT/AEO program and must go forward according to their schedule;
 - BURS and NCE will need sufficient time to build their in-house risk management capacities to support PT/AEO programs;

The final draft takes a somewhat different approach, committing:

- BURS and NCE to first implement trader programs based on and adapted from the SARS model and then to proceed to developing and implementing AEO programs based on the shared best practices of SARS and the WCO SAFE Framework of Standards; and
- The TKC countries to develop mutual coordination and communications channels to permit each country to grant mutual recognition and reciprocity privileges to PT and AEO program participants.

RECOMMENDATIONS

1. Following the March 3-4 TKC working group meeting, BURS and NCE team members should immediately:
 - work with their ASYCUDA departments to identify the highest volume importers, exporters, clearing agents, and transport companies (both by number of transaction and by fiscal impact);
 - work with their ASYCUDA departments and their Classification and Valuation departments to identify those commodities that comprise the greatest volume of imports and exports;
 - based on these two analyses, identify primary focus industries and prime candidates for the preferred trader/AEO program pilot (i.e.; specific companies within the primary focus industry or with a high volume of activity, or both)
 - propose whether their program should initially focus on imports, exports or both; and
 - record these proposals in writing and obtain management's approval prior to the next meeting.
2. The Capacity Building Departments of each Customs authority should coordinate the training support listed in the Capacity Building Section above (Basic Risk Management Theory and Practice, Risk Management On-the-Job Training, and Post Clearance Audit On-the-Job Training) Training should commence at the earliest possible time.
3. The TKC Secretariat should assist in organizing a three day working visit by the Head of the BURS Customer Support Department and the NCE Deputy Director for Trade Facilitation, Procedures and Compliance to review and observe SARS schemes for centralized administrative penalty quality control and compliance measurement.
4. The working group should identify a means of developing or obtaining an automated database of administrative penalties that would enable BURS and NCE central offices to effectively track and measure the compliance history of PT/AEO applicant companies.
5. Recognizing that BURS and NCE will require time to develop the necessary risk management and compliance measurement expertise to bring them up to the SARS baseline, the TKC AEO working group should adopt the strategy proposed in the 5th draft of the Regional guidelines, whereby BURS and NCE begin working with private sector counterparts to develop eligibility requirements and sector-specific benefits for the first level certification: Preferred Trader. This process will benefit from similar discussions already held by SARS and its clients. SARS should designate a primary point of contact both within Customs and the private sector for liaison purposes as Botswana and Namibia develop their programs. Strong consideration should be given to identifying related candidates (Mercedes South Africa, Mercedes Botswana, Mercedes Namibia, or a similar relationship in other primary focus industries.)
6. As BURS and NCE identify their initial PT pilot participants, they should request SARS assistance in conducting the first application validations.



7. As soon as BURS and NCE have implemented their PT programs, the three Customs administrations should review the three programs and take whatever steps necessary to enable each administration to grant mutual recognition to the others' programs.
8. Once the preferred trader program has achieved regional (mutual recognition) status, the same process can be followed to establish the second level Authorized Economic Operator certification and mutual recognition.
9. Time measurement studies should be conducted at a set of paired border stations or at each one stop border station where significant commercial transport activity is encountered. The Trade Hub can assist in coordinating and conducting initial time measurement studies, but each Customs administration should adopt monthly time measurement studies to ensure that client service standards are being met. This undertaking should be tied to the parallel TKCS initiative to develop and publish client service standards.

Separate recommendations are made in the following sections for BURS and NCE.

Namibia Customs and Excise

- **Risk Management**

Namibia Customs and Excise (NCE) has neither a dedicated risk management unit nor does it apply risk analysis techniques to available statistical data or proactively gather additional data to identify, define, assess and evaluate risks and to develop the types and intensity of controls most suited to address specific risks. Customs management recognizes this and has obtained approval for a new organizational structure to include a new, dedicated risk management unit with five officers at HQ and a similar contingent in each region. Customs expects to be able to fully staff these units with over fifty officers. This is a substantial investment in resources and perhaps a misleading one. NCE is currently installing and activating high technology scanners at various locations throughout the country and the responsibility for manning these scanners has been vested in the risk management department. As a result, a significant percentage of the total officers will be devoted to duties other than actual risk management.

NCE uses the selectivity module (MODSEL) of the ASYCUDA++ declaration processing system. MODSEL is employed both at the Head Office and Regional Office levels, but apparently with minimal coordination between the two. Head office (or national) criteria address limited specific management concerns such as importation of automobiles. Regional office criteria are reportedly used to address suspicions or concerns raised at the regional level: e.g., if an examining officer in the field develops a suspicion about a particular importer or a particular line of import goods, that suspicion can be entered as an examination criterion for all offices within that region.

Such criteria would not apply to declarations filed outside that region and there would be no central (head office) monitoring of hits against the criteria or examination results. While examination results are reported via the MODSEL inspection function, it is unclear who monitors them and the examination instructions facility is not used. There does not appear to be any systematic effort to monitor effectiveness of existing criteria or workload impact. NCE provided a list of risk profiles prepared by an UNCTAD consultant and reported that while these had initially been productive, they had not been updated or monitored.

All declarations presented at cargo clearance offices now undergo a face vetting process, regardless of whether they are referred to the green, yellow or red channels. This is a common and understandable practice. It does, however, raise questions about how NCE will channel declarations filed by authorized economic operators. The current thinking of the TKC working group includes a commitment to providing electronic clearance self assessment and electronic submission of declarations without any supporting documents. This is the purest application of a green channel process: the release of goods with no Customs intervention other than data checks performed by the automated system.

To continue to face-vet all declarations presented by non-AEOs will make it difficult to track the number of declarations that will be released in the self assessment, paperless mode since statistics regarding green channel usage will now include both “apples and oranges.”

The alternative to eliminating green channel face vetting altogether is to activate the blue channel within MODSEL. The blue channel will release the electronically filed paperless declaration as though it were routed to the green channel but will refer it for post clearance review or audit. Although not specifically designed for AEO programs, the blue channel works well for that purpose.

- **Management Considerations**

The consultant has provided a digital copy of the USAID Customs Modernization Handbook on Establishing Risk Management/Cargo Selectivity Capability to NCE's working team. This document provides a concise plan of action for implementing a risk management process and provides specific examples of sample directives and announcements that can effectively announce and support the implementation of risk management procedures.

- **Compliance Management**

NCE does not have a centralized repository of administrative penalties.

- **Procedural Readiness**

From a practical perspective, all three Customs authorities must take a proactive stance on identifying new procedures or changes to current procedures needed to fulfill their commitments to providing specific benefits. While it is clear that NCE management recognizes this, it does not appear that NCE has fully engaged in the necessary analysis and development. The TKC Customs authorities are currently contemplating a commitment to offer the following benefits:

- "Green Lane" priority treatment at border crossings
- Fast processing and release of cargo
- Minimum number of cargo security inspections
- Pre-arrival clearance of goods
- Post-arrival clearance audit based controls
- Electronic clearance self-assessment
- Electronic submission of declaration without any supporting documents
- Nominal bonds
- Dedicated/designated AEO user counters
- Trusted partnership with designated Customs liaison officers in each participating country.

Prior to implementation, each Customs authority must be prepared to provide whatever benefits it has promised.



Looking at the issue of border “green lanes”, early discussions suggested that NCE has been able to reduce truck dwell time at the border from 8 to 4 hours. In subsequent meetings, others said, “No, we can do it in much shorter periods of time, maybe half an hour”. The major concern from a readiness assessment perspective is that Customs does not appear to actually track border dwell times. There are two reasons why this knowledge is vital:

- First, the introduction of the TKC Regional Guidelines states: “The TKC MOU puts more emphasis on facilitation of the movement of goods & persons through simplification & harmonisation of procedures; joint controls to reduce transport and transit times through strategic partnerships with the private sector (article 1.5).”
- Second, the TKC is also working on developing Client Service Charters which will publically declare the length of time a client can expect a particular transaction to take. *(For example, “90% of all air passengers will depart Customs and Immigration areas within 30 minutes from the time their aircraft arrived” or “90% of all trucks operated by Authorized Economic Operators will be processed and released by both the exit and arrival country Customs authorities in no more than X minutes.”)* How can the border agencies define a process service standard if they don’t know with statistical certainty how long that process currently takes?

On a very positive note, NCE has years of experience providing the exact “Green Lane” process that will be offered to PT/AEOs. This process is currently used under memoranda of agreement with petroleum importers and one major trucking company.

The current draft guidelines indicate that the three Customs authorities will offer other benefits that might conceivably require new or modified procedures, including consolidated monthly entries and duty deferrals. NCE offered these benefits to trusted traders as early as twelve years ago when it first implemented ASYCUDA. It subsequently terminated that practice.

One concern, perhaps unique to this consultant, is that no written procedures were available to describe these practices. Customs must ensure uniform application of all policies and procedures. The only effective way to do that is to put them in writing, make them available to the officers who are required to carry them out, and establish internal controls to ensure they are carried out properly.

• **Recommendations:**

(Risk Management)

1. NCE should implement the blue channel within MODSEL. The blue channel will release the electronically filed paperless declaration as though it were routed to the green channel but will refer it for post clearance review or audit. Although not specifically designed for PT/AEO programs, the blue channel works well for that purpose. In the interim, it is most effective for addressing valuation concerns to auditors

who can go to the declarant's place of business and review contracts, bills of sale, letters of credit and other documentation to verify the declared value.

2. As NCE implements its new organizational structure and begins to develop its PT/AEO program, it should consider the sample position descriptions provided in attachment 1 to this report.

(Management Considerations)

3. The consultant has provided a digital copy of the USAID Customs Modernization Handbook on Establishing Risk Management/Cargo Selectivity Capability to NCE's working team. NCE should review the concise plan of action for implementing a risk management process and make full use of the specific examples of sample directives and announcements to announce and support the implementation of risk management procedures.

(Compliance Management)

4. Copies of all penalty actions generated over the past three years should be forwarded to a specified unit (e.g., the legal department or the client services and compliance office) and a centralized filing system should be established.
5. Beginning immediately, a copy of each new action should be referred to that unit and reviewed for quality purposes. It is not necessary that all actions generated over the past three years be reviewed, however the quality review should be implemented for every penalty or similar action issued after a certain date.

(Procedural Readiness)

6. NCE should consider re-implementing consolidated monthly entries.
7. Once PT/AEO program goals and potential pilot participants have been identified, NCE should engage the trade in an active collaboration role.
8. Customs must take the time to write clear and concise external and internal instructions explaining the new processes, what clients can reasonably expect and how Customs officers will be expected to process AEO transactions. Several interviewees expressed frustration that they receive too many telephone calls from brokers, traders and officers asking "how-to" questions. If a system of public notices and internal standard operating procedures were in place, most of these calls would no longer be necessary.

Botswana Unified Revenue Service

- **Risk Management**

The Botswana Unified Revenue Service (BURS) has established a small “risk” unit that focuses almost exclusively on gathering information on penalties and seizures made from individuals at borders and at the airport, rather than commercial cargo clearance activities. The unit performs a worthwhile function and, although it has not received any significant training, has begun a program of intelligence collection and dissemination. The anti-smuggling focus of this small group, its placement within the BURS Customs enforcement arm and its mode of operation characterize this unit more properly as an intelligence collection and analysis unit rather than a risk management unit.

Risk analysis and management can be applied to almost any functional activity within a Customs administration or, indeed, within a combined Revenue authority. These functional activities range from hiring practices to establishing bond amounts, to developing port profiles, to managing a cargo selectivity process and more. It is risk management applied in the context of the cargo selectivity process that is vital to the effective implementation of an Authorized Economic Operator (AEO) program.

Fortunately, BURS Customs also has the nucleus of a risk analysis capacity currently supporting its cargo selectivity process. The Systems Clearance and Management Information Department is performing very basic risk management to the extent that its limited staffing permits. The manager of this department has a clear understanding of the basic tenets of the risk management process. He also demonstrated the interest, initiative and energy necessary to bring a limited risk management function on line. The pressing need here is to provide sufficient staffing and the training necessary to formalize and expand that process.

- **Compliance Management**

The Customs Division has most of the organizational and procedural elements in place to implement effective compliance measurement and, later, compliance management. Copies of all administrative penalties and seizures are forwarded to the Appeals section of the Customer Service Department. This section is not only responsible for handling appeals; it also performs the equally important function of reviewing all punitive actions to ensure that laws and requirements are applied consistently and uniformly. This section would benefit from being provided with an automated database system.

- **Client Service Orientation**

A customer service department is an innovative modernization component not yet found in most developing country Customs authorities. BURS Customs has established this department and its manager has a clear vision for the department. This places BURS ahead of the curve and allows it to distribute responsibility for risk management, compliance management and AEO management processes to existing departments. This should be done with the understanding that the departments will collaborate on the development and implementation of the AEO process. Since the Customer Support Department manages and oversees fines, penalties and appeals, as well as clearing agent registration, it is the logical department to assume preferred trader program management

responsibilities. This would be the case even if the current Department Head were not the chair of the TKC AEO working group.

- **Procedural Readiness**

Customs has an effective organizational structure that recognizes and provides for the functions necessary to develop and implement an effective, WCO compliant AEO program: (1) the Systems Clearance and Management Inspection Department, which performs very basic risk management and, with appropriate staffing and capacity building, could relatively quickly rise to a level of competence necessary to support preferred trader programs, (2) an appeals section that receives copies of all administrative penalties for quality review that, with the proper tools, could take on the additional responsibility of evaluating levels of compliance over time, (3) a post clearance audit department, that with proper training and risk management support, will enable Customs to ensure that AEOs meet security and compliance standards and (4) an institutionalized client service orientation, as evidenced by its Customer Support Department, that could readily oversee preferred trader programs.

All of the functions above have been discussed with the exception of post clearance audit. The initial organization and application of this function has resulted in duplicative efforts at the head office and regional offices. This has been further compounded by a lack of communications, coordination or oversight. This unnecessary duplication of effort provides a readily available source of experienced officers who could be reassigned to perform the necessary risk analysis and account manager/supply chain security functions. This, of course, warrants explanation.

The head office Post Clearance Audit department staff felt that its work has not been based on risk profiles or even on an audit strategy. When asked about the ASYCUDA blue channel, head office staff reported that this was reserved for use by regional post clearance auditors and that the head office staff received no information from it. This prompted a visit to the regional office post clearance auditors located in the same building to find out what functions they perform. Those functions were found to be so similar to the duties of the officers handling the yellow channel document reviews that the entire blue channel process and regional office post clearance audit function should be discontinued.

The regional office auditors explained that their job is to review supporting documents for technical errors. Declarations routed to the blue channel, by definition, have already been assessed and duties/collected as if they were green channel declarations. The difference is that they are subsequently referred to the blue channel auditor. To do what? There is no information available to the regional auditors that was not available to the yellow channel officers. If an auditor suspects undervaluation, he or she has no additional documentation available to assess the correct value in accordance with WTO ACV guidelines.

None of those interviewed could provide an accurate number of how many post clearance auditors are assigned to the various field offices, but it appears to be somewhere between 15 and 20. Customs should have no more than two post clearance auditors stationed at each regional office. These officers should have the educational background in accounting so they can effectively undertake a true audit process. Their qualifications should be exactly the same as the post clearance officers in the head office and they should be under the functional guidance of the head office post clearance audit department supervisor. They should serve as a supportive arm of that department.



A post clearance audit should only be conducted at the declarant's or the importer's place of business, where the auditor has access to additional business records associated with the declaration: purchase orders, contracts, insurance documents, correspondence between the buyer and seller, etc. The regional auditors do not have access to any of this information and therefore can do no more effective a job than their counterparts examining yellow channel declarations and attached documents. Instead of being routed to the blue channel, all declarations requiring a document review should be routed to the yellow channel. The blue channel process can then be redirected to a new purpose.

Instead of national criteria randomly directing 15% of all import declarations to the blue channel for this duplicative document review, the blue channel can now be reserved to route declarations to the central post clearance audit unit. This would likely include all declarations filed by AEO declarants as well as those declarations filed by non AEO declarants that hit against a risk profile created by the risk management department. These would most often relate to declarations for which the risk management team had identified a high potential for undervaluation.

One other item needs to be corrected. The current practice of granting some declarants the privilege of self-assessing their declarations based on a general consensus of regional managers needs to be stopped. Self assessment is a privilege that should only be granted to preferred traders or authorized economic operators who have been thoroughly vetted by the Customer Support Department, the Systems Clearance and Management Information Department's risk management unit and formally authorized by the Commissioner.

There is no indication that the current practice has been tainted by any unethical practices but the possibility that this could happen is strong enough to warrant its immediate termination. As described, any regional manager can recommend that a declarant be given self assessment privileges. Those recommendations are circulated among the other regional managers and if no one disagrees, then the privilege is granted. This, of course, assumes that every regional manager has a sufficient amount of experience with the proposed declarant; there is no guarantee of that, nor is there any guarantee of impartiality.

The Customs Regions and Compliance Department appears ready to implement the operational procedures necessary at Botswana's borders and other clearance facilities in order to deliver the benefits promised to AEOs. It is suggested that all three TKC countries, with the assistance of the Trade Hub, identify their primary paired border crossings and jointly conduct time measurement studies to establish baselines. This will help to determine the extent to which facilitation issues must be addressed at each location and will also be useful in the ongoing project of establishing client service standards.

- **Recommendations for BURS**

The following recommendations are specific to BURS and supplement the recommendations provided above.

(Risk Management)

1. The current risk management and intelligence unit should be re-titled to more accurately reflect its intelligence collection and analysis function. The position descriptions of the officers staffing that section should be modified to reflect their anti-smuggling focus.

2. Five highly experienced and intuitive officers now performing blue channel reviews at regional offices should be converted to risk analysts and reassigned to the Systems

Clearance and Management Information Department to upgrade and manage a formal risk management process in the cargo selectivity context.

Note: Attachment 1 provides suggested revisions to the current risk and intelligence position description, a sample position description for a cargo selectivity risk analyst, and a proposed position description for a new specialization that may become necessary when the authorized economic operator program is fully operational.

(Compliance Management)

3. To facilitate the Fines, Penalties and Appeals Department's ability to evaluate compliance of AEO applicants over time and to provide important management information, the BURS information technology department should be tasked with developing an automated penalty tracking system. This system should be shared with NCE.

(Organizational Structure Refinement)

4. The functions of two elements within the current organizational structure of the Customs Division would be clarified if their titles more accurately reflected the nature and range of duties performed: (1) the current risk unit located within the Enforcement Department is actually functioning as an intelligence collection and analysis unit and (2) the current Appeals Unit located within the Customer Service Department is now functioning as an administrative penalties and appeals unit. While this may seem minor, both suggestions directly relate to the preferred trader process. .

(Procedural Readiness)

5. The current blue channel desk audit process should be phased out and the blue channel redirected to identifying AEO declarations and questionable value declarations to the head office Post Clearance Audit unit.
6. The current practice of granting the privilege of self-assessment to companies or individuals based on a general consensus of regional managers should be terminated. This process should be reserved for future use by preferred traders/AEOs.
7. Once PT/AEO program goals and potential pilot participants have been identified, BURS should actively collaborate with the Customs Business Forum.

South Africa Revenue Service

- **Risk Management**

SARS utilizes a selectivity module known as the Integrated Customs Risk Analysis System (ICRAS) which provides risk analysis and profiling capabilities for imports and exports from a transactional and behavioral context. As SARS moves forward in the development of its new Integrated System to replace the CAPE system, it will upgrade its risk management capabilities. ICRAS offers a three phase targeting process. The first phase provides tactical targeting based on specific information developed by SARS risk analysts or provided to them by the police, immigration officers, citizens, et al. If a declaration hits against a Phase 1 risk profile, it is directed to the yellow or red channel as appropriate. If a declaration clears phase 1 without hitting against specific risk profiles, it then moves to Phase 2, which initially performs a “generic” check against importer codes, tariff codes, clearing agent codes, country of origin codes and Customs procedure codes. This has subsequently been improved to include first time or infrequent importers, routing, relationships, and source countries to better address safety and security issues, as well as fiscal and trade issues. Phase 2 provides a weighted scoring of each of these elements that generates a total score ranging from 8 to 24. In Phase 2, the system can search its knowledge base to identify low frequency importers, unusual routings, questionable relationships, etc. Depending on staffing, facility capacity, etc. local managers can establish on a daily basis the range of scores that they will treat as low, medium and high risk. If a declaration clears both Phases 1 and 2 and is not selected for a specific Customs control, it is then subjected to a Phase 3 random selection. The Phase 1 tactical targeting criteria as well as the Phase 2 generic risk criteria are developed and entered into ICRAS by a national targeting unit; in effect, a centralized risk management unit.

- **Compliance Management**

SARS has historically had an accredited trader program but felt that there were significant weaknesses in how it was implemented. A major initiative is currently under way to modernize SARS business systems, including the accreditation of specific registrants and licensee segments supported by a transparent policy. SARS' new scheme will initially be applicable to importers and exporters who can demonstrate historical compliance and an ability to manage risk. SARS will validate the client's systems--risks and record of compliance, accounting, record keeping, computer system, staff skills, financial resources--and will provide benefits and differentiated services to clients that demonstrate compliance. SARS will provide specific benefits; e.g.; account management, fewer interventions, lower bond surety, and periodic declarations

- **Client Service Orientation**

SARS is currently engaged with its private sector clientele to identify sector-specific benefits. SARS' approach will be to replace the Accredited Trader designation with two separate compliance based certifications: a lower level Preferred Trader designation and a higher level Authorized Economic Operator designation. The AEO must meet the highest security & compliance criteria. To qualify for AEO partnership benefits, a client must meet stringent WCO compatible compliance and security standards. SARS' policy is aligned to WCO SAFE Framework standards. Partnership requirements are being established for each supply chain type and SARS is working with its clients to develop tailored benefits and

differentiated services. Benefits will increase according to the level of compliance

certification (licensed trader, preferred trader, AEO). Accreditation status will be specific for client types: e.g. importers and exporters. The preferred trader program will focus on the accuracy/validity of declared trade entering, leaving and transiting South Africa and will facilitate movement through Customs. The AEO program will focus on the security and integrity of South Africa's trade entering the supply chain in order to establish South Africa's international reputation as a trusted trade partner. Secure status on inbound movement will be assured through mutual recognition with key origin countries

- **Procedural Readiness**

SARS is rewriting its Customs code to make it fully compliant with the Revised Kyoto Convention. At the same time, SARS is replacing its CAPE system with a new SARS Integrated System that will be in line with international best practices and use Customs Procedure Codes.

SARS' initial focus will be on validating those operators that represent the largest flow of goods in key sectors to and from key trade partners. SARS is seeking a suitable ratio that allows for the largest feasible transaction volume: largest trade value: most manageable number of valid operators. All supply chain operators have a role in ensuring the correctness of information and/or documentation and/or the integrity of goods. To avoid being overwhelmed by applications at the start of the process, specific and strict inclusion criteria will be required. SARS will ensure that the AEO Program is implemented and expands in a learning environment, rather than a demanding one.

- **Capacity Building**

SARS has offered its TKC counterparts capacity building assistance from its Customs Academy and risk management experts.

- **Recommendation**

BURS and NCE should view SARS progress to date as a model for their programs. While the BURS and NCE programs will no doubt require adaptation and modification, the basics should be quite similar. In order to facilitate this process, SARS should provide two designated officers to serve as permanent members of the TKC AEO Working Group and ensure that these officers attend all meetings and provide necessary liaison, advice and assistance to their counterparts.

Attachment 1: Sample Position Descriptions

Risk Management Specialist

1. Performs in-depth analyses and evaluations of customs data relating to commercial processing and compliance, using a variety of automated analysis and research tools. Analyses focus on importation trends, common traits, profiles, and past violations in order to develop examination criteria for the Selectivity Module of the Customs administration's automated system.
2. Defines risks potentially present in commercial imports, exports and the transport of goods, under Customs control. Risks include risks to the revenue as well as risks to the security, health and well-being of the nation and its citizens.
3. Gathers information from internal and external sources and information contained in automated databases to develop strategic and tactical responses to various risks to Customs.
4. Evaluates the data and information gathered to evaluate the risk in terms of (a) the likelihood the risk will occur and (b) should the risk occur, the potential consequences. This establishes the relative risk level.
5. Devises specific Customs controls of the type and level of intensity deemed most likely to be effective in identifying and countering high risk transactions consistent with available resources. Creates and enters tailored examination criterion into the selectivity module to provide the most appropriate treatment for various types and levels of risks.
6. Monitors feedback from examining officers, auditors and investigators performing the specific controls conducted as a result of each examination criterion to determine the productivity and cost-effectiveness of the criterion to ensure that the criterion does not place unreasonable workload demands on staff and logistical resources and modifies criterion accordingly.
7. Develops criteria based upon his/her own initiative as well as upon requests from other Customs officers or units. All requests from other units must be fully considered and evaluated; however, it is the responsibility of the Risk Analyst to determine whether the request is valid, and if so, how to best address the concerns raised in the request.
8. Develops and maintains contacts within various program offices to gather all available information related to commercial transactions or commercial operators.
9. Applies his/her knowledge of Customs law and regulations, valuation, and tariff nomenclature, relying on prior experience to ensure that examination instructions are clear, concise, and capable of being followed.
10. Continually evaluates database to identify and maintain up-to-date ranking of most-traded commodities to identify primary focus industries. Periodically assess compliance levels.



11. Continually evaluates database to identify and maintain up-to-date ranking of clients representing largest flow of goods in key sectors to/from key trade partners. Periodically assesses compliance levels.
12. Works with counterparts in Revenue, Internal Audit, neighboring and international customs authorities and other institutions to develop appropriate risk modeling criteria and the development of cargo selectivity risk profiles.
13. Reviews legislation and recommends changes in rules and regulations to enhance the ability of the risk management department to manage the flow of goods and persons in and out of the country from a customs administration perspective.

Intelligence Analyst

1. Plans, organizes and coordinates the functions of the Intelligence Collection and Analysis Unit and establishes working processes and procedures; allocates duties and functions to staff.
2. Works with counterparts in neighboring and international customs authorities and other institutions to develop appropriate risk modeling criteria and the development of anti-smuggling profiles.
3. Establishes and ensures constant updating of intelligence database relating to risk profiling and intelligence in order to refine models and profiles.
4. Develops various sources of intelligence through access to business and financial information and maintains proactive network to ensure that risk profiles are dynamic.
5. Receives feedback from Investigations, regional offices and other agencies and evaluates the efficacy of disseminated intelligence information.
6. Develops strategies and plans for the Intelligence Collection and Analysis Unit to ensure they are in line with the overall strategic plans of the Division.
7. Reviews court reports and police advisories and works closely with international customs agencies in relation to smuggling, money laundering and related contraventions and movement of banned goods, contraband and other criminal related assets to maximize cooperation and protect national security.
8. Produces and publishes intelligence bulletins for the customs authority and circulates to other appropriate authorities domestically, regionally and internationally.
9. Reviews investigations and post clearance audit reports to obtain information of techniques aimed at hiding non-compliance and methodologies used to attempt to defraud Customs, and import or export banned goods and contraband.
10. Prepares and submits intelligence reports to the Customs Manager, Compliance & Enforcement and to the Commissioner, Customs & Excise



11. Conducts a national threat assessment and analyses the risks associated with the threat relating to smuggling of contraband and undeclared goods.
12. Liaises with other intelligence agencies for exchange of information regarding suspects, crime trends and national security.
13. Liaises with other international Customs organizations and intelligence agencies in conducting enquiries on their behalf under the appropriate international agreements.

Supply Chain Security Specialist

Note: This new specialty position may become necessary if and when the number of authorized economic operators is sufficient to warrant a dedicated program management staff.

AEO programs are based on risk management principles promoted by the WCO and practices used by Customs administrations throughout the world; therefore, the logical entity to assume responsibility for the management of an AEO program is the risk management department of the Customs administration. This department, normally responsible for employing analytical skills to identify and target high-risk shipments, must expand its focus and use its skills to identify low-risk, compliant companies qualifying for simplified and expedited procedures.

The risk management department must develop its own expertise in supply chain security. As Customs officers review AEO program applications and validate security profiles, visiting facilities, meeting with company managers, and reviewing security processes and controls, they gain familiarity with business practices. Although Customs administrations often already establish and enforce basic physical security standards for bonded warehouses, free trade zones, duty-free shops, and bonded carriers, few have had the need or opportunity to acquire the expertise in business operating procedures, internal controls, employee security, and information security that implementing an AEO program will require.

To meet the challenges of managing an AEO program, a Customs administration may have to increase staffing or redeploy existing staffing to create a new group of supply chain specialists. Supply chain specialists develop focused expertise in and knowledge about the international supply chain and the means of securing it. Ideally, supply chain specialists have university degrees and two or more years of experience in Customs-related activities. They may have backgrounds in enforcement, trade matters, transportation, or trade logistics, and they should have organizational, computer, interpersonal, and verbal and written communication skills as well as the ability to perform detailed work. Training or practical experience in commonly applied security principles, concepts, and methodologies is especially welcome, as are language skills, because supply chain security specialists review correspondence, purchase orders, and other documents that may be in a foreign language.

In the United States, the CBP's AEO program is called the Customs-Trade Partnership Against Terrorism (C TPAT). A new kind of specialist—the supply chain security specialist—is critical to implementing the program. The specialist physically inspects and validates member companies' domestic operations and foreign business partners. In 2007, C TPAT security specialists validated 3,011 supply chains, visiting manufacturing and logistics facilities in 79 countries.

Supply chain specialists perform the following duties:

1. Serves as subject matter experts on the WCO Safe Framework of Standards, the Revised Kyoto Convention, the International Ship and Port Facility Security Code, and international standardization related to security of the supply chain (ISO/PAS 28000 and related).
2. Provides guidance to prospective AEOs on how to prepare a security profile and complete their application
3. Vets applications and security profiles for content and completeness
4. Preliminarily rates each application (compliant/ satisfactory, partially compliant/more information needed, unsatisfactory)
5. Requests further information to resolve deficiencies and answer questions about application and profile information
6. Leads or participates in application review meetings and any subsequent validation visits to AEO applicants' premises to meet with the company's officers and inspects facilities and procedures to verify that the information in the application and profile is accurate and that the described procedures and safeguards are in place
7. Resolves deficiencies observed during the application review meetings, including meeting with rejected applicants to provide guidance on how these can be corrected
8. Documents findings and prepare a written recommendation of approval or disapproval to the deciding authority and drafting the correspondence to the applicant
9. Serves as the principal adviser and primary Customs point of contact (account manager) to assigned AEOs for security issues and as the primary liaison for promptly resolving non-security-related issues
10. Maintains accurate files of all actions taken with respect to applications and participants so that an audit trail is maintained
11. Prepares assessment reports, giving special attention to identifying unusual trends with potential for becoming security problems
12. Recommends the appropriate response to incidents of noncompliance by AEO partners, including working with the AEO partner to identify ineffective procedures or internal controls and providing recommendations for improvement
13. Serves as a trainer and public speaker to Customs and private sector partners on supply chain security issues